

Central Intelligence Agency

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DIRECTORATE OF INTELLIGENCE

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South Korea: Growth Prospects [REDACTED]

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Summary

South Korea's economy probably will average 6.5 to 7 percent annual real growth between 1985 and 1989. Foreign debt may reach \$60 billion with \$1 to \$2 billion current account deficits each year adding to the debt burden. Concern about this large debt and about the dangers of rekindled inflation probably will restrain increases in government spending to roughly the same level as GNP growth. Thus, if there are to be defense expenditures at higher growth rates they will have to be at the expense of important infrastructure and social programs. [REDACTED]

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During the remainder of the decade, we anticipate that South Korean growth rates -- at the 6.5 to 7 percent level we have estimated -- will fall below the 9.5 and 7.5 percent levels achieved in 1983 and 1984, respectively. We believe that this period will also be marked by continued concern over management of the debt and, therefore, that economic policymakers will advocate austere monetary and fiscal policies. [REDACTED]

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With government expenditures expected to grow at the same rate as GNP, defense will take a larger share of total government spending. Seoul's commitment to keep defense spending at

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6 percent, coupled with the 1984 IMF-mandated recomputation of Korea's national accounts -- which lowered defense expenditures to 5.4 percent of GNP -- require outlays to grow at a 9 percent average annual real rate over the next five years. [REDACTED]

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External factors, which play a major role in setting the pace of economic growth, could sharply test South Korea's economic plans. Continued access to international credit markets could be threatened by a slowdown in world demand for Korean exports or by poor repayment performance by other debtor LDCs. A sudden rise in interest rates or energy prices could engender serious balance of payments problems for South Korea. And, major trading partners, dissatisfied with the pace of Seoul's economic liberalization efforts and alarming export growth, might take protectionist moves against South Korean exports. [REDACTED]

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Political problems at home, however, pose the greatest potential threat to growth prospects. In our judgment, serious instability is unlikely in the near term. But the confrontational note struck by opposition candidates in the parliamentary campaign, and the return of Kim Dae Jung underscore the potential for political turbulence. In addition, uncertainty about an anticipated leadership transition in 1988, when President Chun has promised to step down, raises questions among many observers about prospects for longer term political stability. [REDACTED]

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